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Cotton and Products

Update on China's Cotton Classification Reform

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Report Highlights:

This report summarizes recent developments on China's reforms of its cotton classification system that were announced on December 17, 2003.

Includes PSD Changes: No
Includes Trade Matrix: No
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Background

On December 17, 2003, China's National Development Reform Commission (NDRC) and State Administration for Quality Supervision, Inspection and Quarantine (AQSIQ) jointly published circular entitled, "Cotton Quality Classification System Reform Plan." The intent of the reform is to integrate China's Classification System with international standards. As follow up, on July 22, 2004, NDRC and AQSIQ held a conference during which NDRC reiterated its commitment to the reform program and AQSIQ summarized progress to that date.

Main Contents of the Reform

Bureau of Fiber Inspection Will Take Over Classifying & Labeling. The new plan specifies that the Bureau of Fiber Inspection of China (BFIC) will take over responsibility for cotton quality classification and labeling from the processing industries. BFIC will collect samples on a voluntary basis and test each and every bale. Specific procedures are: 1) two samples to be collected from each side of the bale while baling, half of each sample to be mixed to make two final samples to be tested from each bale; 2) unified bar code issued by BFIC (four copies for each bale) to be packed within the samples and the bale (one copy for each sample and two copies packed in both sides of the bale); 3) two samples to be delivered to Fiber Testing Agency. Along with the testing results will be the following information: origin, name of the processing mill, the processing date, weight and content of foreign fiber. This information will be entered in the National Cotton Quality Database and a copy of these data to be kept by the enterprise and to accompany the bale to market. All cotton-processing enterprises are requested to set up and perfect their internal quality management system according to the relevant laws.

Adopt High Volume Instrument (HVI) Testing. The current testing method is based on the classifier's subjective judgment and experience. The new system will be based on high volume instrument testing (HVI). The goal is to make the testing process more objective and science based.

Develop Quality Standards for HVI Testing. To adopt HVI testing and meet the textile industry's demands, the Plan calls for the following to occur: 1) to formulate China's Cotton Color Characterization Chart and develop the necessary software; 2) develop cotton quality standards and related technical specifications applicable for HVI. New standards should add parameters such as strength, fineness, maturity and uniformity to reflect the inner quality of cotton.

Adopting 227 Kg Bales. The international standard of 227 kg bales will replace the 85 kg bales currently used. A nationwide overhaul of enterprises' packing equipment will phased in gradually.

Implement Humidity Control Measures. In an effort to avoid the weight differentiation resulting from differences in humidity, a new humidity control system will be developed to ensure appropriate moisture levels for cotton throughout the processing chain. Use of this humidity conditioner with the new packing equipment will ensure standardized weights.

Establish National Cotton Quality Database. The Bureau of Fiber will issue a bar code for each bale of Chinese cotton. Traders can use this bar code to learn the quality, origin and date of each bale because it will be contained in the National Cotton Quality Database.

Establish Specialized Cotton Warehouses. Tested and classified cotton will be delivered to specialized warehouses on a voluntary basis and without changing ownership. The seller will deliver cotton out of the designated warehouses after a sale is completed. The functions of designated warehouses are: 1) ensure no fraud or deception takes place; 2) facilitate a bank's monitoring the cotton as collateral; 3) select cotton based on the buyers requirements; and, 4) promote online transactions.

Reform Testing & Classification. Classification will switch to the processing enterprises facilities from the textile factories where it currently is done. Classifiers will be trained and licensed before they are hired. BFIC will render services to cotton enterprises. Independent reclassification facilities shall be set up to handle traders' appeals.

What Has Been Done?

In a follow up Conference held on July 22, 2004, AQSIQ Deputy Minister Mr. Wang Qiping summarized the development of the proposed Reform, which consists of three phases: 1) preparation; 2) trial; and, 3) full implementation. Starting from the State Council approval dated September 17, 2003, the preparation work as indicated below had been completed as of the date of the conference:

Progress on Phase I - Preparation:

The following had been accomplished between when the State Council approved the reform package and the date of the mentioned conference:

- Formulated the eligibility and measures of check and acceptance for the trial facilities. Currently, ten gins are selected to conduct trial reform implementation.
- The terms of preferential loans, which are intended to assist gins to purchase the necessary baling and related equipment, had been determined.
- A circular was issued suspending approval of new gins that are not equipped with standardized baling equipment. Also, changes to the eligibility and certification requirements for cotton traders were discussed thoroughly.
- Formulated and published an assistance policy to the facilities participating in Phase II -- the trial reform.
- Formulated preliminary standards and the relevant implementation measures for specialized warehouses for classified cotton.
- The Ministry of Finance approved a budget for Phases I and II. The earmarked funds will be allocated to the relevant facilities soon.
- China's Cotton Characterization Chart and the relevant software have been developed. All test items and physical parameters were basically determined.
- A draft of cotton quality standard for HVI classification was formulated. Studied and formulated technical specification for HVI equipment, instrumental and certified classification methods, supervised sampling methods and liability system.
- A Chinese HVI sampling machine was produced and compared with an imported HVI machine. Nine imported HVI machines arrived for the trial, of which five were set up and tested.
- The database has been completed and is being installed and tested.
- BCFI collaborated with the China Cotton Industry Corporation in completing the bar code system for baling.
- Drafted minimum eligibility standards for cotton classification facilities. Eight facilities were selected to participate in the trial of which five had been retrofitted with the necessary instruments, equipment, laboratories, and data processing equipment by the end of July 2004. BCFI completed staff training for the operation and maintenance of the equipment.

-- Preparation work relating to cotton processing was completed as scheduled. The baling machinery and related equipment have been manufactured and operating on a trial basis. A baling standards and specifications on processing technology were drafted and reviewed. All of the gins in the trial reform have completed installation and testing of equipment.

Next Steps

The first year trial implementation has been sufficiently successful for BCFI to determine that new classification system will be implemented nationwide. NDRC officials stressed that the Reform would be phased in over five years, during which the old and new systems would have to co-exist. NDRC recognizes the potential problems of having two systems in operation at the same time. In response to these potential problems, NDRC intends to study the cotton industry's distribution network, guide the configuration of resources, promote technical upgrading, stress risk management, and facilitate elimination of small, outdated gins that do not meet the new standards.

In the trial implementation phase, there are two technical issues that are or will be the most difficult to overcome. First, verification that the following meet the new standards: baling machines and auxiliary equipment; new technology in cotton processing; new classification instruments, technical specifications of HVI classification; data processing and supervision system. Second, through the trial implementation, establishing a complete operation model, including certifying system of eligibility of processing enterprises; operation model on production management under new technology and instrumental classification in the processing chain. Other issues related to classified cotton, such as logistics, marketing, state reserve and use by mills. One of the important tasks for the Reform is to set up the National Standards for Instrumental Classification. Formulating China's Cotton Color Characterization Chart and developing the needed software will be key to the success of this effort. Additional challenges include researching and manufacturing humidity control equipment and the on-line moisture testing system and testing equipment for foreign fiber identification and elimination.

Preliminary Analysis of Impact on US Cotton Exports

In general, the proposed reform program will bring China's classification regime in line with the international cotton classification and trading system. The relevant Chinese agencies have shown a strong interest in learning about, but do not want to copy, the U.S. system. Taking account of the complicated nature of this reform, and the numerous players (over 10,000 gins nationwide) involved, it is not surprising that the implementation will take years.

A positive development was BFIC's announcement at the "China Cotton Industry Development Summit Forum" held June 29-30, 2004 that the proposed standards for neps and short fiber content", which caused considerable concern among U.S. cotton exporters, will only be included at the request of applicants, but will not be mandatory. (Please refer to GAIN Report CH4013 for further information).

In summary, it appears the reforms will not have much of an immediate impact on U.S. cotton exports to China. Any impact is likely to be positive because China's system will be more like the U.S. system and that is expected to facilitate, not impede, trade between the United States and China. Post will pay close attention to any new developments in this regard. U.S. exporters are encouraged to report any problems resulting from these new reforms to FAS/Beijing (agbeijing@usda.gov) and FAS Cotton and Oilseeds Division (cots@usda.gov).

Appendix**Facilities selected to participate the pilot project****List of Gins**

Hebei Guoxin Agricultural Extension Cooperative
Hebei Nangong Seed Co.
Shandong Tianyuan Cotton Industry Co.
Shandong Juye Lumian Cotton Industry Co.
Henan Zhongmian Cotton Industry Co.
Henan Huapeng Cotton Industry Co.
Hubei Qianjiang Cotton Co.
Xinjiang Manasi Dema Cotton Industry Co.
Xinjiang Weili Cotton and Jute Corporation
Xinjiang Production and Construction Corp. (No.123 and 125 Farms of Agricultural Co.)

List of classification facilities

Hebei Fiber Inspection Bureau
Shandong Dezhou Fiber Inspection Institute
Henan Fiber Inspection Bureau
Henan Shangqiu Fiber Inspection Institute
Hubei Fiber Inspection Bureau
Xinjiang Shihezi Fiber Inspection Institute
Xinjiang Bazhou Fiber Inspection Institute
Xinjiang Qitong Fiber Inspection Institute